

An organization that operates a college book and supply store serving exclusively members of the faculty and student body and refunds its excess earnings to member purchasers qualifies for exemption under section 501(c)(3) of the Code.

The Internal Revenue Service has been asked whether a nonprofit corporation formed to operate a college book and supply store in the manner described below is exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

The book and supply store sells new and used textbooks and other school supplies. Sales are made only to its membership, which is limited to students and faculty of the college.

The organization attempts to operate at cost. If earnings are realized in excess of operating needs, the excess is refunded annually to members in proportion to their purchases. In the event of dissolution, the remaining assets will be given to an organization exempt from Federal income tax under section 501(c)(3) of the Code.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations that are organized and operated exclusively for charitable or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Revenue Ruling 58-194, C.B. 1958-1, 240, holds that a corporation organized for the purpose of operating a book and supply store and a cafeteria and restaurant on the campus of a State university primarily for the convenience of its student body and the members of its faculty, no part of the earnings of which inures to the benefit of any private shareholder or individual, may be considered to be operated exclusively for educational purposes and may qualify for exemption from Federal income tax under section 501(c)(3) of the Code.

The book and supply store in this case is organized and operated in essentially the same manner as the organization held exempt in Revenue Ruling 58-194, C.B. 1958-1, 240, except that it refunds its surplus earnings to its member purchasers.

Since the cash refund is based upon the amount of business transacted with each member, it merely represents a reduction in the price of the books and supplies sold. Therefore, the annual distribution to members does not result in inurement of the organization's net earnings to individuals.

Accordingly, it is held that the organization is exempt from Federal income tax under section 501(c)(3) of the Code.

Even though an organization considers itself within the scope

of this Revenue Ruling, it must (in order to establish exemption under section 501(c)(3) of the Code) file an application on Form 1023, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the Income Tax Regulations.